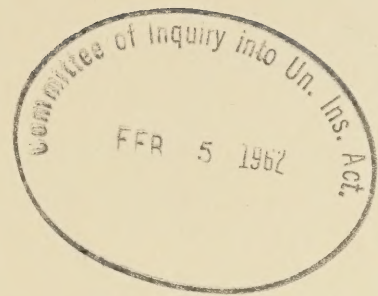


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THE RELATIONSHIP BETWEEN UNEMPLOYMENT INSURANCE
AND CANADA'S OTHER INCOME MAINTENANCE PROGRAMS

by

George M. Hougham
Director, Council Projects Branch
Canadian Welfare Council

—Prepared for the federal Committee of Enquiry into the Unemployment Insurance Act—

January 1962



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INTRODUCTION

This report has been prepared at the request of the Committee of Enquiry into the Unemployment Insurance Act. One of the terms of reference of the Committee is to inquire into and report on "the relationship between programs of support for the unemployed and other social security measures". As a basis for its consideration of this question, the Committee of Enquiry asked the Canadian Welfare Council to prepare a study, broadly speaking, of issues and problems in the relationship between unemployment insurance and Canada's other income maintenance programs.

Although the Council's Board of Governors formally approved the undertaking, the report that follows is not an official statement of Council policy. Nor is it, in a formal sense, a study. In developing the document, the writer has drawn on knowledge and convictions gained in the course of Council consideration of social security problems; has reviewed previous Council policy statements¹ as well as other literature bearing on the subject; and has benefited from discussions of specific issues with certain members of the staff and other persons closely associated with the Council. The work has not, however, been guided by any Council committee, nor has the report been considered or approved by the Council's Board of Governors.

¹For example, Social Security for Canada, June, 1958;
First Priority: The Welfare of People, March, 1961

The report is, in essence, a statement of observations concerning the relationship between unemployment insurance and other income maintenance measures. These observations are organized under three main headings. Part I consists of a number of broad comments about the nature, role and limits of the unemployment insurance program itself. Part II identifies various individual or family conditions which occasion a need for income maintenance; and relates these conditions to specific income maintenance programs. Part III presents observations and conclusions on the relationship among the programs, derived in large measure from the assumptions set forth in Part I and the description and analysis contained in Part II.

1. Many of the assumptions that are made concerning the appropriate role and limits of unemployment insurance derive from an assumption, explicit or implicit, that there is and should be a close parallel between unemployment insurance and private or commercial insurance. Although there are a number of superficial similarities between the two, it is a basic premise of this report that the assumption is not only erroneous, but likely to be misleading.

The similarities between Canada's unemployment insurance program and commercial insurance are fairly obvious. Both involve, for example, the collection of contributions or premiums, the creation of a reserve fund, the establishment of a connection between benefits received and contributions paid, and the payment of predictable benefits in relation to a defined risk or contingency.

The ways in which unemployment insurance departs from commercial insurance practices are more striking and, it is believed, more fundamental.

A few illustrations may suffice. Unemployment insurance, unlike commercial

PART I: THE NATURE, ROLE AND LIMITS OF UNEMPLOYMENT INSURANCE

The character of findings or conclusions about the proper relationship between unemployment insurance and other income maintenance programs will depend, in part, on the assumptions that are made concerning the requirements of a system of unemployment insurance. It will depend also on the major characteristics and related limitations of the particular program (and of the other components in the total framework of income maintenance measures).

Observations on these two aspects of unemployment insurance are set forth in the following points:

1. Many of the assertions that are made concerning the appropriate role and limits of unemployment insurance derive from an assumption, explicit or otherwise, that there is and should be a close parallel between unemployment insurance and private or commercial insurance. Although there are a number of superficial similarities between the two, it is a basic premise of this report that the assumption is not only erroneous, but tends to be misleading.

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The ways in which unemployment insurance departs from commercial insurance principles are more striking and, it is believed, much more fundamental.

A few illustrations must suffice¹. Unemployment insurance, unlike commercial

¹For a much fuller analysis, see Eveline M. Burns, "Private and Social Insurance and the Problem of Social Security", CANADIAN WELFARE, February 1 and March 15, 1953

insurance, is not financed exclusively out of contributions (premiums); the program has always involved a direct subsidy out of general revenues and the government, in addition, bears all the administrative costs. Contributions are collected not only from persons who face the "insurable risk" (workers), but from persons and organizations without such an insurable interest (employers). The connection between benefits received and contributions paid has been loosened from the beginning, in that the benefit formula is designed to favour the lower income classes, and that a higher benefit is paid to a claimant with dependents without any differential premium.

These and similar features of the unemployment insurance program can be justified only on grounds which are completely foreign to commercial insurance. They involve questions of "fairness", of "reasonableness", of "adequacy", and the like. These are not, of course, commercial considerations, but issues of social policy. They are illustrations of the fact that, as a public program, unemployment insurance is and must be concerned with the achievement of public or social purposes. In the circumstances, the appropriate role of the program cannot be determined by analogy with private or commercial insurance. It depends rather on agreement concerning overall social goals, and on judgment concerning the extent to which unemployment insurance can offer a practical and effective way of achieving them. These two factors are considered in the points that follow.

2. There would probably be fairly general agreement that the overall objective should be a social security system that affords a reasonable measure and level of economic security for everyone. Within the context of that objective, the goal and role of unemployment insurance, it is here suggested, is broadly to provide to members of the labour force predictable income maintenance benefits in the event of involuntary and unpredictable unemployment.

Certain of the implications and practical limits of this definition of the role of unemployment insurance are explored in succeeding points. It should be realized, however, that the definition itself involves two important limits:

- a. One of the effects of the payment of unemployment insurance benefits is to support consumer purchasing power during slack periods and thereby to help counteract fluctuations in the general level of economic activity. Unemployment insurance is not, however, a solution to the economic, technological or social problems that underly such fluctuations and should not be used as a substitute for programs and policies designed specifically to deal with these problems.
- b. Unemployment insurance is not even, in fact, a solution for the individual or family confronted with unemployment. All that it can do is lessen the economic impact of the unemployment for some defined and therefore limited period of time. The only effective and acceptable solution of the unemployed breadwinner's problem is, of course, suitable paid employment.

3. It is assumed that, within the limits of administrative feasibility, unemployment insurance should cover all members of the labour force who work under a contract of service. The assumption is, in other words, that everyone who works under a contract of service faces a risk, major or otherwise, of involuntary unemployment and consequent loss of essential income.

Two observations may be made concerning the practical consequences of this premise:

- a. Unemployment insurance should extend to a number of groups in the labour force which are not, at present, fully covered. For example, there is no justification for exempting from coverage employees of

charitable organizations, of non-profit hospitals or, for that matter, of government.

- b. The coverage should not, on the other hand, be broadened simply on the basis of demonstrable financial need. One of the virtues of unemployment insurance is that it is a straightforward program of wage-related cash benefits, requiring relatively simple rules and regulations. This advantage is likely to be lost if the program is stretched to provide benefits, for example, for persons who do not obtain their income from wages or salaries and/or are self-employed, i.e., to persons who do not work under a contract of service.

4. It is assumed that unemployment insurance must involve a test both of the claimant's attachment to the labour market and of the involuntary character of his or her unemployment. The program should not, on the other hand, involve any test, direct or otherwise, of either means or need.

The specific nature and implications of these related assumptions are as follows:

- a. One of the merits of unemployment insurance is that benefits are payable, once the qualifying conditions have been met, as a matter of right. The underlying assumption is that satisfaction of these conditions is in itself sufficient evidence of financial need and that investigation of individual circumstances is therefore unnecessary and unwarranted¹. It is assumed, in other words, that with coverage

¹For a treatment of this same point in relation to the "need" of people for employment, see Senate Committee on Manpower and Employment, Supplementary Memorandum from the Canadian Labour Congress, February 15, 1961.

limited to persons working under a contract of service (see #3 above), the number of claimants who do not "need" benefits will be an insignificant proportion of the total. The judgment is that the disadvantages of paying benefits to this small minority are more than offset by the advantage of non-discretionary benefits for the vast majority and by the related advantage of relatively simple and inexpensive administration.

- b. However, in any unemployment compensation program without a means test or needs test, some test of attachment to the labour market is unavoidable. Since the rationale for paying benefits is that the claimant's means of support is normally paid employment, it is reasonable to require evidence of this as a condition of eligibility. A test of attachment to the labour market is required, from a negative standpoint, to prevent people from entering the market solely or even primarily for the purpose of establishing eligibility for benefits.
- c. The relevant test in the Canadian unemployment insurance program is the requirement of a specified number of prior contributions during a defined period or periods. Exactly what formula is appropriate in this test will always be a matter of judgment. However, if unemployment insurance is not only to cover most members of the labour force (see point #3 above) but to provide effective coverage, it is obvious that the formula should not be so stringent as to disqualify any substantial proportion of claimants (see also point #5 below). The purpose, it bears repeating, is only to test recency of attachment to the labour market. The formula is not intended, nor should it be administered, as a means of preserving a close

connection, as in private insurance, between an individual's benefits and his prior contributions.

- d. Unless unemployment insurance is to be stretched to meet income maintenance needs other than those arising out of involuntary unemployment, the program also requires a test of the claimant's "availability for suitable employment".

The test that is applied is that the claimant register periodically with the National Employment Service; and that he accept referrals to suitable employment, as defined in the legislation.

It is important to recognize that this test can only be really effective when two conditions are present. First, it requires, as is generally acknowledged, a strong employment service. The service must have sufficient means, facilities and staff to keep in close and continuous contact with the labour market; to develop and maintain a complete registry of job openings; and to do a skilled and effective job of employment counselling and placement.

An even more vital prerequisite is the existence of employment opportunities. Periodic registration at the National Employment Service demonstrates only that the claimant for unemployment insurance is physically able to appear at an office. Unless the service can refer him to job openings, it cannot be sure that he is "available for suitable employment"; that he is, in fact, involuntarily unemployed. The efficacy of the test depends, in other words, on the existence of unfilled vacancies in the labour market, i.e., on a relatively high level of economic activity and employment.

5. It is assumed that, as a public program embodying a social purpose, unemployment insurance must meet the test of adequacy. One measure of adequacy is the proportion of the covered population who qualify for benefits (see

point #4 c. above). Another appropriate measure is the level of benefits in relation to the income maintenance needs of the claimant and his dependents.

The practical application of this measure involves a number of related considerations, as follows:

- a. Because unemployment insurance pays predictable rather than individualized cash benefits, the level of benefits can only reflect general or average needs. It cannot and should not involve any investigation and assessment of the circumstances and needs of individual claimants.
- b. An inescapable consequence of basing benefits on average need is that, even with payment of wage-related benefits by a series of wage classes, some beneficiaries will require supplementary financial assistance through some other income maintenance program. (It is equally inevitable, of course, that some beneficiaries will receive benefits over and above the average level of need assumed in the unemployment insurance program.)
- c. A negative measure of the adequacy of benefits under unemployment insurance is the percentage of beneficiaries in any benefit class who find it necessary to apply for supplementary financial assistance. If the percentage assumes significant dimensions, the benefits provided through unemployment insurance are patently no longer adequate¹.

¹It should be pointed out that, even if the required statistics were available, the actual percentage would be unrealistically low. Supplementary financial assistance to unemployment insurance beneficiaries is not universally available in Canada; it involves a means test to which many people will submit only as a last resort; and the eligibility requirements and administration of the program vary markedly from one jurisdiction to another.

- d. A more positive and realistic clue to the adequacy of unemployment insurance benefits is the average level of consumer expenditures. Since the benefits are intended to meet general or average needs, it can be argued that they should be sufficient on average to cover at least the non-deferrable components of consumer spending.
- e. It is a well known fact that the non-deferrable expenditures of an individual or family are higher in the long run than in the short run. Over a limited period, some requirements may be financed out of savings, may be postponed, or may even be purchased on credit ¹. In the long run, the cost of all non-deferrable expenditures must be met out of current income.

The implication of this difference between short and long run costs is fairly obvious. Whether or not unemployment insurance benefits are adequate to meet even non-deferrable expenditures will depend to a considerable extent on the duration of unemployment that the program is and should be expected to cover. This vital aspect of unemployment insurance is considered in the next point.

6. It has frequently been observed that unemployment insurance is at its best in dealing with relatively brief periods of unemployment². This report goes somewhat further. A basic premise is that unemployment insurance should only be used for unemployment of fairly modest duration; that it becomes a less and less appropriate and effective program as the period of the individual's unemployment grows longer.

¹Any significant amount of credit buying is not, of course, a likely prospect for the person who is out of work.

²See, for example, Submission by the Canadian Labour Congress to the Committee of Enquiry into the Unemployment Insurance Act, October 1961, pp. 5-7.

Some of the practical reasons for setting a relatively modest outside limit are as follows:

- a. The level of unemployment insurance benefits is theoretically based on average rather than individual need. But even average need, as indicated above, is likely to differ significantly in the short and long run. Even if benefits under the program were set at a sufficiently high level to meet non-deferrable expenditures in the short run, they would still be inadequate to cover such costs during unemployment of extended duration.
- b. As a universal program restricted to cash benefits, unemployment insurance rests on the assumption that the vast majority of beneficiaries need only income maintenance. This assumption only holds good when the unemployment is of relatively brief duration.

Whether job opportunities are plentiful or non-existent, an individual or family head who remains unemployed over a more extensive period should at least have the additional help of vocational training or re-training. And as the period of unemployment drags on, there is increasing prospect that social counselling, rehabilitation or some similar service will also be required. As many social workers can testify, the experience of prolonged unemployment may itself generate difficult personal and social problems for the individual and/or his family.

- c. A closely related point concerns the undesirable consequences that tend to flow from using the unemployment insurance program to provide extended income maintenance. Such an approach not only lends support to the assumption that cash benefits can be regarded as an adequate and acceptable answer, over any significant period

of time, to the problems of an individual who is unable to obtain a job. It also encourages using the machinery of unemployment insurance, deliberately or otherwise, as a substitute for positive programs to stimulate fuller use of the nation's productive resources, human as well as material. And by stretching unemployment insurance to compensate for inadequacies in the social security system as a whole, it encourages neglect of these inadequacies and tends, concurrently, to undermine the integrity of the unemployment insurance program itself.

- d. Finally, there is the problem of effectively administering a test of the claimant's availability for suitable employment. The test not only tends to be mechanical when there are no job openings to which the claimant can be referred (see point #4 d. above). It also becomes little more than a formality (and is probably approached as such by both the employment service and the claimant), when it has to be applied at regular intervals over any considerable period.

PART II: INCOME MAINTENANCE NEEDS AND RELATED PROGRAMS

A. THE FOCUS

As indicated at the beginning, the purpose of this section of the report is to identify various individual or family circumstances which are likely to involve a need for income maintenance and to relate these conditions to specific income maintenance programs¹.

It may be well to point out before proceeding further that this statement of purpose automatically excludes from detailed consideration at least three important areas of social policy. Each of the three has a significant bearing on the problem of income maintenance. As long as their importance is recognized, however, it is possible to proceed satisfactorily without a full assessment of:

- a. Public programs, actual and proposed, which are intended to lessen or eliminate the burden on income imposed by the costs of health care or illness (i.e., hospital and other types of health care insurance);
- b. Public programs which are intended either to compensate directly for inadequate income in relation to family size (i.e., family allowances), or to enhance the individual's capacity to earn an adequate income (i.e., rehabilitation programs and programs of vocational counselling and training);
- c. Public programs which are intended either to influence the level of

¹ The programs are not described in this report because it is understood that the Department of National Health and Welfare is providing the Committee of Enquiry with a detailed description of them.

employment and earnings indirectly (i.e., broad economic and fiscal measures), or to provide employment and earnings directly (i.e., public investment and so-called public works programs).

B. THE CAUSES OF NEED AND RELATED PROGRAMS

As Lord Beveridge has noted,¹ most of the need for income maintenance reflects two broad conditions. They are interruption of income and loss of income.

Whether an individual or family has suffered interruption of income or loss of income is, in some cases, a matter of judgment. It is well to recognize, therefore, that there is and probably always will be a twilight zone between the two. However, as long as this limitation is acknowledged, it is useful for purposes of exposition and analysis to distinguish between these underlying conditions of need.

Interruption of income is used here to refer to circumstances where the lack of an income appears likely, or may be assumed, to be temporary. It refers, in other words, to a situation where the individual's normal experience, clear intent and reasonable expectation is to support himself through gainful employment.

Loss of income by contrast, is used here to refer to circumstances where the lack of income is likely to be either of long duration or a permanent condition. It refers, in other words, to a situation where the individual's prospects of earning income through gainful employment have become negligible or have disappeared entirely.

¹ Sir William Beveridge, Social Insurance and Allied Services, Macmillan Company, 1942, p.7.

For each of these broad conditions of need, it is possible to identify a number of underlying causes. In the accompanying tables, the more important of these causes are set forth, together with the relevant Canadian program or programs (if any) of income maintenance. (See Tables I and II, pages 16 and 17.

The system of classification adopted in these tables is intended to provide a conceptual framework within which to weigh the relationship between unemployment insurance and other income maintenance programs. However, before proceeding to this task (see Part III below), three general comments are required about the classification itself:

1. Although a classification of causes of need and related income maintenance programs can be a useful analytical device, it is not suggested that the particular framework or pattern which appears in the Tables has any intrinsic merit or significance. The pattern is, as it has always been, more a product of chance - of separate decisions about particular problems at different times - than a reflection of systematic overall planning and conscious design¹.

2. A closely related and perhaps obvious point is that there are a wide variety of ways in which particular income maintenance needs or combinations of them may be met through public programs. In fact, both the extent to which particular needs are recognized and acknowledged as a public responsibility and the way in which public programs have been developed to satisfy them varies considerably with time, place and circumstances.

¹The lack of systematic planning and conscious design in Canada's social security system led the Canadian Welfare Council to recommend, in its 1958 policy statement, the appointment of a federal Royal Commission on Social Security.

TABLE I

LOSS OF INCOME: MAIN CAUSES AND RELATED INCOME MAINTENANCE PROGRAMS

Cause	Income Maintenance Program(s)
Death, divorce or desertion of the breadwinner	<p>(a) For women with dependent children: mothers' allowances</p> <p>(b) For women without dependent children: public assistance or old age security or assistance, depending on the age of the woman.</p>
Disability	<p>(a) For permanent and total disability: disability allowances</p> <p>(b) For the disability of blindness: blindness allowances</p>
Old age	<p>(a) For persons between ages 65 and 69: old age assistance</p> <p>(b) For persons age 70 and over: old age security pension, plus means-tested supplementary financial assistance in some provinces.</p>

TABLE II
INTERRUPTION OF INCOME: MAIN CAUSES AND RELATED INCOME MAINTENANCE PROGRAMS

Cause	Income Maintenance Program(s)
Work-caused injury or illness	<p>(a) For persons in covered employment: workmen's compensation</p> <p>(b) For persons not covered by workmen's compensation: public assistance</p>
Illness	<p>(a) For persons already unemployed and receiving unemployment insurance benefits: unemployment insurance</p> <p>(b) For persons who suffer interruption of income as a direct consequence of illness, whether or not they are covered by unemployment insurance: public assistance</p>
Maternity	Public assistance
Involuntary Unemployment	<p>(a) For persons eligible for unemployment insurance benefits: unemployment insurance, plus means-tested supplementary financial assistance in some provinces</p> <p>(b) For persons who are not covered by unemployment insurance or who have exhausted their benefits: public assistance</p>

To cite only one example, we currently have in Canada, as shown in Table I, a distinct program of flat-rate old age benefits; two separate programs of means-tested disability allowances; and as the only direct recognition of a need for survivors' benefits, a program of means-tested mothers' allowances. In the United States, by contrast, there is a single program embracing wage-related old age, disability and survivors' benefits.

3. The third comment is that unemployment insurance (or any other single program) bears some relationship to all the other programs in Canada's total social security system. In the assessment that follows, more attention may be paid to the relationship between unemployment insurance and certain of the programs shown in the Tables. But this should not be allowed to obscure the fact that all the programs are interrelated and that the ramifications of changes in any one program will therefore be felt, in some measure, in every other one.

PART III: THE EXTENT AND NATURE OF THE RELATIONSHIP OF PROGRAMS

A. UNEMPLOYMENT INSURANCE AND "LOSS OF INCOME" PROGRAMS

Unemployment insurance, it is suggested above (see Part I, point #6), should be limited to providing income maintenance in the event of temporary and relatively short-run interruption of income. One might assume in the circumstances that there would not be any very close or direct relationship between it and programs designed to provide income maintenance in the event of more or less permanent loss of income.

This assumption proves to be, in large measure, valid. In the series of comments that follow, it will be noted that the relationship appears most prominent where the kind of people who might or do qualify under a program providing long-run benefits have, in fact, a continuing attachment to the labour market and a rightful interest thereby in unemployment insurance and other "interruption of income" programs.

Table I above identifies, broadly speaking, six categories of people related to three major causes of loss of income. There would probably be fairly general agreement that four of the six categories - women with dependent children, the totally and permanently disabled, the blind, and persons aged 70 and over - require income maintenance programs which will allow them to remain out of, or withdraw more or less permanently from, the labour market.

It is not suggested that the social security system should be designed or administered to prevent these people from seeking gainful employment within the limits of their personal capacity and family circumstances. But it is argued that they should have available, as of right, cash benefits that are sufficient to allow a free choice between such employment and complete separation from the labour market.

Within these general premises, a number of specific comments may be made concerning the appropriate relationship between unemployment insurance and the relevant income maintenance programs. These comments are as follows:

1. To the extent that each of the programs provides less adequate benefits or involves more rigorous tests of eligibility than unemployment insurance, it is inevitable that some people may attempt to qualify under the more generous insurance program.

2. In the case of mothers' allowances, disability allowances and blindness allowances, this situation does not pose any significant problem. The number of people who might qualify for benefits under one of these programs and who would enter the labour market exclusively or even primarily to obtain unemployment insurance coverage is undoubtedly negligible. Any such person, it is implied above, should have the right to unemployment insurance anyway, as long as he or she can qualify under the program. Unemployment insurance is sufficiently protected against abuse in this area by its test of attachment to the labour market and of availability for suitable employment of the claimant (see Part I, point #4). Moreover, unless and until the means test is eliminated from these programs of financial allowances, there cannot in any case be duplication of benefits with unemployment insurance.

3. The relationship between unemployment insurance and the old age security pension is a little more complex. The person who can qualify under the latter program, it is again argued, should nevertheless have the right to unemployment insurance if he can meet the requirements of the program. And unemployment insurance is again sufficiently protected against abuse by its tests of "attachment" and "availability". The proposal (which is heard most frequently when unemployment is high) to exclude persons aged 70 or over from unemployment insurance is neither a socially desirable nor an equitable alternative.

4. The question that remains is whether, with both old age security and unemployment insurance benefits available, broadly speaking, as of right, the same person should be entitled to both benefits. Should not, at least, the unemployment insurance benefit be reduced, for claimants age 70 or over, by the amount of the old age pension?

Although such a position could be taken without undermining the basic social purpose of either program, it must be rejected on grounds of equity. The person who continues to earn income past age 70 is nevertheless eligible for the old age security pension, as is the person of independent means. It can scarcely be argued that the person whose income equivalent is unemployment insurance should be put in a less favourable position.

It should be noted also that, if the Canadian old age pension involved, as in some countries, a retirement test, this issue would not arise. Then the old age pensioner would be automatically excluded from unemployment insurance by virtue of his qualification under the retirement test and the relationship between the two programs would be much less direct than it currently is.

It will be noted that Table I also identifies two other categories of people, namely, widowed, divorced or deserted women without dependent children and persons between ages 65 and 69. The income maintenance requirements of these people and the implications of the requirements for unemployment insurance are, it is suggested, as follows:

1. The younger woman without dependents who requires an earned income may reasonably be expected to enter the labour market¹. Until she does, her

¹ The situation of the older woman who is left unsupported is substantially similar to the 65 to 69 age group. See point #3 below.

only present means of public support is, as the Table notes, public assistance. Once she has obtained gainful employment, her situation becomes indistinguishable from the man without dependents. In the event of involuntary unemployment, each either qualifies for unemployment insurance or is forced to rely for income maintenance on public assistance.

2. The woman who is widowed, divorced or deserted may, however, have one problem which can have a bearing on unemployment insurance. Such a woman is quite likely to have neither marketable job skills nor any previous employment experience. Like the young person attempting to enter the labour market for the first time, she may need vocational guidance and training if she is to have any real hope of secure and satisfactory employment. And she will also need adequate financial support during the period of training.

The required financial support might be provided through public assistance or through a national program of training benefits. If the latter were to be developed (see p.34 below, point #4), it would be reasonable to consider use of the machinery of unemployment insurance to administer the program.

3. The sixth category of people identified in Table I - persons aged 65 to 69 - comprises two separate groups. First, there are those who, because of impairment due to age, have had to withdraw from the labour market and who, because of economic circumstances, have had to apply for old age assistance. The position of these old age assistance recipients, it is suggested, is substantially similar to recipients of mothers' allowances, disability allowances and blindness allowances and the same comments (see point #4 b. above) apply concerning the relationship between the programs.

4. The remainder of the 65 to 69 age group are people who are still in, or at least physically capable of, gainful employment. There is even less reason for excluding these people from unemployment insurance, if they can meet the qualifying conditions, than persons who are eligible for the old age security pension. At least the latter receive an old age pension as of right. For the 65 to 69 age group, by contrast, the only alternative to attempting to earn an income is an assistance program involving a means test.

The foregoing comments concerning the relationship between unemployment insurance and the "loss of income" programs may be summarized in four general propositions:

1. A person who might or does qualify under one of the programs providing long-run income maintenance may, nevertheless, decide to remain in or to enter the labour market.
2. If such a person meets the qualifying conditions, he or she should be entitled to coverage under unemployment insurance and, in the event of involuntary unemployment, to benefits.
3. Where the "loss of income" program provides only means-tested financial assistance, there is no significant relationship or possibility of duplication between the benefits under that program and under unemployment insurance.
4. Where, as in old age security, the "loss of income" program provides universal benefits as of right, the claimant who meets the qualifying conditions under both programs should not only receive the old age benefit, but also the full amount of his or her unemployment insurance benefits. To argue otherwise as long as there is no retirement test for the old age pension is to suggest that the claimant should be put in a less favourable

position than the old age pensioner who manages to continue in gainful employment or who has independent means that eliminate any need for such employment.

B. UNEMPLOYMENT INSURANCE AND "INTERRUPTION OF INCOME" PROGRAMS

The major causes of temporary interruption of income and the related income maintenance programs are set forth in Table II. The relationship of unemployment insurance to these programs and conditions¹ involves the following considerations and comments:

1. Table II identifies four causes of interruption of income, namely work-caused injury, illness, maternity and involuntary unemployment. Only two of these, it will be noted, have called forth what might be classified as categorical or specific programs of income maintenance. Workmen's compensation provides wage-related cash benefits and required medical and related services in case of work-caused injury or illness². And unemployment insurance provides wage-related cash benefits in the event of involuntary unemployment. There is no similar recognition of any need for a specific program of wage-related benefits in the event of either illness or maternity³. In case of financial need, the only recourse of the person

¹The relationship of unemployment insurance to public assistance where the cause of need is involuntary unemployment is assessed in Section "C" below.

²Workmen's Compensation is also a "loss of income" program, in that it provides a burial benefit and survivors' benefits in the event that the injury causes death and also provides permanent wage-related compensation in cases of permanent full or partial disability.

³As Table II notes, however, unemployment insurance has been extended to provide the equivalent of a sickness cash benefit to anyone whose illness begins after he has qualified for and is receiving unemployment insurance benefits.

whose income is interrupted by illness or maternity is to public assistance.

2. The difference between these two situations has significant implications for the relationship between unemployment insurance and individual "interruption of income" programs or causes of need:

- a. There is not, it is believed, any significant issue or concern in the relationship between unemployment insurance and workmen's compensation. For the worker whose income is interrupted by work-caused injury or illness, the workmen's compensation system not only provides benefits more generous, on average, than unemployment insurance, but also the medical and related treatment services required to rehabilitate the beneficiary and to restore him, to the extent feasible, to gainful employment. There is not, in the circumstances, any incentive for a worker to seek unemployment insurance benefits in preference to workmen's compensation; the opposite is, if anything, more likely. And the conditions of eligibility for workmen's compensation are such that the worker who can qualify for benefits will obviously not be able to qualify concurrently for unemployment insurance; he will not be able to meet the required test of "availability for suitable employment".
- b. The reverse of this is, broadly speaking, the pattern in cases of income maintenance need caused by illness and maternity. These are contingencies which, in a number of countries, are directly recognized in the social security system. The lack of such recognition in Canada leaves anyone affected by the particular contingency with two alternatives. The person who needs financial

assistance when income is interrupted by illness or maternity¹ will either attempt to qualify for unemployment insurance benefits or will have to fall back on public assistance.

Neither of these approaches, it is suggested, provides an adequate and acceptable solution to the problem. The pattern of workmen's compensation and unemployment insurance and the experience of other countries alike indicate that the major causes of interruption of income can and should be covered by programs of wage-related cash benefits. Until such a program is developed in Canada for illness and maternity, it is inevitable that some of the people affected by these contingencies will attempt to obtain benefits under unemployment insurance. The test of "availability for suitable employment" should again afford sufficient protection of the integrity of that program. But this only means that the burden is shifted to means-tested public assistance. The appropriate role and practical limits of the public assistance mechanism are discussed in Section C below.

Before proceeding with that discussion, it may be helpful to present the specific arguments contained in this section and to trace their implications, in the form of four general propositions:

1. The income-maintenance needs arising out of each of the causes of interruption of income can and should be met by a program or programs of wage-related cash benefits.
2. The causes of these needs are sufficiently distinct that, where

¹In the case of maternity, of course, only a small proportion of gainfully-employed married women may need income maintenance; the income of the husband may be sufficient in most instances to support the family. It should be recognized, however, that this does not apply in the case of the unmarried mother or of the woman who is widowed, divorced or deserted.

separate and adequate programs have been or are developed for each area of need, there should be no significant amount of overlapping or major problem in the relationship between individual programs.

3. Until all of these income-maintenance needs are appropriately covered, it is inevitable that some people will attempt to stretch unemployment insurance to cover their unmet needs.

4. The unemployment insurance program (though not the individual concerned) is adequately protected in a situation of this sort by its test of "availability for suitable employment".

C. UNEMPLOYMENT INSURANCE, PUBLIC ASSISTANCE
AND THE PROBLEM OF INVOLUNTARY UNEMPLOYMENT

Although the public assistance program appears in Tables I and II opposite a number of causes of need, the focus here is on the relationship between it and unemployment insurance with respect to what has been described throughout this report as involuntary unemployment. The nature of that relationship depends partly on the role assigned to and the limits inevitable in each of the two programs.

The appropriate role and limits of unemployment insurance have been suggested, directly or by implication, at a number of points in the report¹. Unemployment insurance should provide, within the limits of administrative feasibility, a program of wage-related cash benefits for all persons with a reasonable attachment to the labour force and employed under a contract of service who become involuntarily unemployed. The benefits should be

¹
See particularly Part I above.

paid, subject to a test of the claimant's availability for suitable employment, as of right; they should be adequate to cover the short-run income-maintenance needs of most beneficiaries; and they should be limited in length to unemployment of relatively modest duration.

The appropriate role of public assistance is, it is argued, substantially different from this. The objective of public assistance should be, broadly speaking, to provide financial assistance and/or social services to individuals and families for whom the cash benefits under unemployment insurance or some other income-maintenance program are inadequate; who are not covered by one of the cash-benefit programs; or who need other kinds of assistance than cash. A test of the individual's or family's financial means is required in a general assistance program. And the program should also involve an effective assessment of the requirements, financial and otherwise, of the individual case; and the provision of adequate financial assistance, counselling and rehabilitation services in conformity with those requirements.

The most important question that remains, and a major concern at this time, is - to what extent can unemployment insurance and public assistance, as defined, meet the full range and dimensions of the individual and family needs which involuntary unemployment immediately creates or tends to bring in its train? The answer to this question, it is suggested, depends primarily, though not exclusively¹ on the overall level and therefore the probable duration of unemployment.

¹ Although it is outside the scope of this report, it should be noted that the answer is also dependent, in part, on the adequacy, in legislation, regulations and administration, of public assistance programs. These programs, with a few notable exceptions, leave much to be desired in this regard. See the Council's policy statements referred to in the footnote on p. 1.

When the Level of Unemployment is Relatively Low

When the economy is buoyant, when, at least, there is a rough balance between unfilled vacancies and unplaced applicants in the labour market, unemployment insurance and general assistance should be able, between them, to do the job described above¹. An unemployment insurance program, as described, should be able to provide a first and a sufficient line of defence against the risks of involuntary unemployment for the vast majority of the labour force. And public assistance should be able to provide supplementary help to the minority of insurance beneficiaries who require it², as well as affording income maintenance protection for the minority who slip through the meshes of the unemployment insurance operation entirely.

The relationship between unemployment insurance and public assistance in these circumstances would perhaps be described most effectively as a reciprocal one. By providing a first line of defence for most workers, unemployment insurance would help to keep the public assistance caseload and financial burden within manageable and acceptable bounds. And the existence of an adequate public assistance program would serve, in turn, to protect the integrity of the unemployment insurance system by helping to reduce the pressure which might otherwise develop to extend that program beyond socially desirable and administratively feasible limits.

¹There may still be a need at such times for programs of vocational training for workers with inadequate skills or whose skills have become obsolete. It is assumed in this connection either that adequate training benefits are provided as part of the training programs or that unemployment insurance benefits continue to be available to beneficiaries who are referred for training.

²This assumes that, through the public assistance program, supplementary financial assistance should and would be available in every province to unemployment insurance beneficiaries who qualified for it under a reasonable means test.

Two objections might be made concerning these observations. First, they assume more adequate and acceptable programs of public assistance than, in fact, exist in many communities. The answer to this problem, it is here argued, is to continue to press at all levels of government for further improvements in public assistance, not to knowingly over-extend unemployment insurance in order to compensate for recognized inadequacies in assistance programs.

The second objection might be that the analysis ignores the special income-maintenance problem which stems from seasonal fluctuations in the level of industrial activity and employment. The reason for this omission is not because seasonal unemployment is not recognized as a significant problem in Canada, even during periods of relatively full employment. It is rather because the broad outlines of an appropriate answer to the problem are, it is believed, already abundantly clear. An assessment of the major approaches that have been proposed suggests, surely, that the most promising and responsible solution rests in a combination of:

- a. Continuing efforts, public and private, to reduce seasonality in industrial production and employment; and
- b. A separate national program of seasonal, wage-related, income maintenance benefits, probably to be administered through the machinery of the unemployment insurance system, and certainly to be financed, primarily if not exclusively, out of general revenues rather than earmarked contributions¹.

¹On pages 32 to 35 of this report, a separate national program of wage-related cash benefits is proposed as a bridge between unemployment insurance and public assistance. It is assumed that if this proposal were implemented, seasonal (extended) benefits would and should disappear as a separate entity. To the extent that they were not met under the basic unemployment insurance program, the income maintenance needs caused by seasonal unemployment would simply be one kind of financial need which would be taken care of under the new program.

When the Level of Unemployment is High

Income maintenance programs, it bears repeating, are neither an effective, nor are they likely in the long run to be an acceptable, answer to heavy and prolonged unemployment. The solution rather lies in measures, public and private, to raise the general level of economic activity, industrial production and employment. Unfortunately, we have, at times in recent years, either been unable to devise effective remedies of this sort or unwilling to pay the price of applying them. The analysis that follows assumes only that our income maintenance programs should be so structured that they can continue to operate effectively in this kind of situation.

The relationship that will obtain between unemployment insurance and public assistance during heavy and prolonged unemployment depends in large measure on which one, or combination, of three broad approaches to the consequent problem of income maintenance is adopted.

The first approach would be to follow the pattern into which we have drifted during the past few years, i.e., to provide extended income maintenance benefits to the degree required or feasible as part of the basic employment insurance program.

This possibility is mentioned only to be dismissed. Our present situation demonstrates that the effect of such a policy, or lack of one, is to subject the unemployment insurance program to unwarranted and increasingly intolerable strain. Serious objections may also be raised on the grounds of equity. The result of this course is to force the contributors to unemployment insurance to bear a financial burden that only the nation as a whole is equipped or should be expected to carry.

A second approach might be to confine the unemployment insurance program more or less within the limits proposed in Part I of this report, and to

attempt to meet the full residual burden of unmet need through the mechanism of public assistance.

This would not be a reasonable or realistic course of action either, for the following reasons:

1. It would involve the application of means-testing on an extensive scale. Any substantial increase in use of the means test is not only likely to be politically unacceptable; it is also impractical from an administrative standpoint. And as the duration of an individual's unemployment lengthens, it becomes less and less necessary as a test of financial need.
2. A program of public assistance as described above requires a relatively small and stable caseload. Essential to a good program is individualized assessment of need and provision of required assistance and services. To expand the dimensions of the program significantly would be to weaken its administration and distort its purpose .
3. A closely related point is that a good program of public assistance is not capable of rapid enlargement and contraction. The quality of the public assistance program depends to a very large extent on the resource of a skilled and experienced staff. When the requisite professional personnel are already in desperately short supply, a rapid and sizeable expansion of public assistance is simply out of the question.
4. The final argument involves both practical considerations and a point of principle. The cost of public assistance is shared among the federal government, the provinces and the municipalities. Any substantial increase in the public assistance caseload would impose an additional financial burden on the provinces and municipalities which some of them,

at least, may not have the resources to sustain¹. Nor, it is argued, should they have the obligation to bear that burden. Heavy and prolonged unemployment is surely both a national problem and a national responsibility.

The only other way in which the total range of income maintenance needs could be met in case of prolonged unemployment would seem to be through a separate national program which would take over where unemployment insurance leaves off. And the development of such a program is, in fact, strongly recommended.

The major arguments in favour and advantages of a separate national program are, it is believed, evident and obvious in the foregoing analysis. It may be helpful, however, to sum up with a few general observations concerning the nature and implications of the proposal:

1. Although a separate national program is proposed, it is assumed that the administration of it could and probably would be through the machinery of the unemployment insurance system.
2. It is further assumed that the program should be financed out of general revenues rather than contributions or premiums. Heavy and prolonged unemployment is, as just indicated, a national problem and responsibility. And there is the additional argument that placing the financial burden of the program squarely on the national government might provide a built-in incentive for the adoption of positive measures to ameliorate or correct

¹In its 1958 policy statement on social security, the Council recommended in this connection that "the proportion of cost carried by the Dominion government (should) progressively increase as the total number of persons on public (general) assistance in a province mounts beyond predetermined percentages of its population".

the underlying problems which extensive unemployment reflects.

3. The level of unemployment is usually highest among those with the lowest level of education and training. Prolonged unemployment is likely, in addition, to be accompanied by deterioration in many unemployed workers' skills. The income-maintenance program should therefore be closely related to adequate programs of refresher courses and vocational training. At the very least, acceptance of referral to training could be made a condition of continued benefits, as it is now under unemployment insurance. For those unemployed workers who could benefit from further education and training, the income-maintenance provided should and would, in fact, constitute a training benefit.

4. It is assumed that coverage under the program would at least extend to everyone who is or should be eligible for coverage under unemployment insurance (see Part I, point #3). On the other hand, many new entrants to the labour market are unable to secure covered employment when the general level of unemployment is high. Consequently, part of the program or a closely-related one should make training benefits available for persons without a record of previous attachment to the labour market (see also p. 22 above, point #2).

5. The non-deferrable expenditures of an individual or family are likely, as noted above (see Part I, point #5), to be higher in the long run than the short run. Consequently, the level of benefits under the program should be considerably higher than the level of roughly 50% of prior earnings which currently obtains, on average, under unemployment insurance¹.

¹Whether or not the benefits under unemployment insurance are adequate is outside the scope of this report. It may be noted, however, that the Canadian Welfare Council is already on record in support of higher benefits, in its 1958 policy statement on social security.

6. Although the higher level of long run individual and family need is sufficient justification for higher benefits under the program than under unemployment insurance, there is also an economic argument for them. By raising the level of public expenditure during periods of economic slack, higher benefits would contribute, automatically and significantly, to compensatory or counter-cyclical public financing.

7. It should be noted, finally, that the proposed program would make it possible to restore unemployment insurance and general assistance to the respective roles that have been suggested for them in this report. The restoration and preservation of an appropriate relationship among the various income-maintenance programs would not only be in the public interest, but also, it is believed, in the best interest of those individuals and families who are unfortunate enough to have to turn to them for support.

